

BANKING

Maintain POSITIVE

Surprising loans growth acceleration after OPR cut

KEY INVESTMENT HIGHLIGHTS

- **Loans growth surprisingly accelerated as at February. This could be due to OPR cut and lower repayments**
- **Higher growth in the business segment**
- **Loans application growth jumped possibly due to pent up demand as it was a “short” month in January**
- **Lower deposits growth as banks could be pacing themselves in terms of fixed deposit taking**
- **Asset quality stable thus far but keeping an eye on it**
- **Cognizant of the impact of Covid-19, BNM measures and MCO. However, we maintain our POSITIVE stance in the banking sector as the BNM measures provides breathing space for everyone**

Loans growth accelerated. The banking system loans growth as at February CY20 surprisingly accelerated to +3.9%yoy, as compared to the +3.5%yoy registered as at January CY20. This could be due to the effect of the OPR cut in January, and also lower repayments from the business segment. Top 3 contributors to system loans stock (loans for purchase of residential housing, passenger cars and working capital) grew at faster pace at +3.8%yoy to RM1.16t vs. +3.4%yoy the previous month.

Higher growth rate for the business segment. Loans for the business segment grew +2.4%yoy to RM784.8b as at February CY20. This was due to higher expansion of working capital loans, loans for purchase of non-residential properties, loans for purchase of fixed assets and construction loans. These grew +0.6%yoy to RM395.5b, +3.2%yoy to RM225.6b, +21.1%yoy to RM12.5b and +9.2%yoy to RM60.0b respectively. Comparatively, the expansion rate was -0.4%yoy, +3.0%yoy, +18.6%yoy and +6.1%yoy respectively as at January CY20.

Retail loans saw growth at faster pace too. In terms of retail loans, it grew +5.2%yoy to RM906.4b, higher than the +5.0%yoy registered the previous month. Main drivers were loans for purchase of residential properties and personal loans which expanded +7.3%yoy to RM610.4b and +3.2%yoy to RM97.5b respectively.

Strong rebound in loans application. Loans applied grew +40.7%yoy in February CY20. This could be due to the fact that January was a “short” month on account of the Chinese New Year holiday. As a result, the year-to-date loans applied jumped to +8.1%yoy.

Loans approval trying to keep pace. Meanwhile, loans approval also saw significant jump in terms of growth. It expanded +23.2%yoy resulting in the year-to-date growth of +7.4%yoy.

Deposits growth slowed due to FD. The total system deposits grew +2.6%yoy, lower than the +2.9%yoy as at January CY20. This was due to lower fixed deposits growth of +2.2%yoy to RM1.0t. We believe that this suggest that banks are pacing themselves in view of another OPR cut.

COMPANY IN FOCUS

Malayan Banking Bhd

Maintain **BUY** | Unchanged Target price: RM9.55
Price @ 31st March 2020: RM7.45

- Likelihood of stable asset quality and credit cost
- Scale and size
- D-SIB bank means support
- Attractive dividend yield of circa above 7%

Share price chart



CIMB Group Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM5.70
Price @ 31st March 2020: RM3.60

- Likelihood of stable asset quality and credit cost
- Scale and size
- D-SIB bank means support
- Relatively undemanding valuation as it is trading below 1x PBV
- Decent dividend yield of circa above 7%

Share price chart



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FIGURE 1: BANKING SYSTEM TOTAL LOANS AND LOANS GROWTH

	Total loans (RM b)	Growth (yoy)	Growth (year-on-year) on selected loans purpose			
			Purchase of passenger cars	Purchase of residential property	Personal use	Working capital
Jan-19	1,711.1	7.5%	-0.2%	8.2%	37.0%	5.8%
Feb-19	1,708.5	7.0%	-0.5%	7.9%	36.4%	5.5%
Mar-19	1,715.0	7.0%	-0.3%	7.9%	35.6%	4.7%
Apr-19	1,715.7	4.5%	-0.5%	7.1%	3.4%	3.0%
May-19	1,721.9	4.5%	0.2%	7.3%	3.3%	3.3%
Jun-19	1,728.4	4.2%	-0.3%	7.1%	4.2%	2.3%
Jul-19	1,728.8	3.9%	-0.8%	7.0%	2.9%	1.6%
Aug-19	1,739.0	3.9%	-1.6%	7.1%	2.8%	2.1%
Sep-19	1,747.5	3.8%	-1.7%	7.2%	2.8%	1.6%
Oct-19	1,751.7	3.7%	-1.5%	7.2%	2.7%	1.3%
Nov-19	1,759.1	3.7%	-1.2%	7.3%	2.8%	1.3%
Dec-19	1,771.6	3.9%	-1.0%	7.3%	3.1%	1.0%
Jan-20	1,770.5	3.5%	-0.8%	7.2%	3.0%	-0.4%
Feb-20	1,774.7	3.9%	-0.8%	7.3%	3.3%	0.6%

Source: BNM, MIDFR

FIGURE 2: LOANS APPLIED AND LOANS APPROVAL

	Applied (RM b)	Growth (yoy)	Approved (RM b)	Growth (yoy)	Approval rate
Jan-19	71.9	-3.8%	31.1	-3.3%	43.2%
Feb-19	49.9	-13.6%	24.2	-3.0%	48.6%
Mar-19	72.6	-5.3%	35.5	6.9%	48.9%
Apr-19	83.2	5.4%	35.2	5.7%	42.4%
May-19	79.8	13.3%	39.8	25.4%	49.9%
Jun-19	65.4	-11.3%	34.6	-3.0%	53.0%
Jul-19	78.1	0.5%	37.5	11.2%	48.0%
Aug-19	82.3	-0.3%	35.8	1.7%	43.5%
Sep-19	69.1	-6.1%	33.7	-8.7%	48.8%
Oct-19	81.7	3.2%	33.9	-12.8%	41.5%
Nov-19	80.0	26.4%	35.7	2.8%	44.6%
Dec-19	63.9	5.5%	33.7	7.6%	52.8%
Jan-20	61.4	-14.6%	29.5	-4.9%	48.1%
Feb-20	70.2	40.7%	29.8	23.2%	42.5%
2MCY19	121.7	-8.1%	55.3	-3.1%	45.4%
2MCY20	131.6	8.1%	59.4	7.4%	45.1%

Source: BNM, MIDFR

FIGURE 3: SELECTED LOANS APPLIED SEGMENTS GROWTH RATE (year-on-year)

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
Jan-19	-8.1%	5.8%	12.1%	-2.2%	-14.3%	-13.9%	-3.8%
Feb-19	-12.0%	0.1%	-16.3%	-14.1%	-17.7%	-15.2%	-13.6%
Mar-19	-15.3%	6.8%	-5.8%	-18.1%	-11.0%	-1.6%	-5.3%
Apr-19	-9.4%	12.6%	-1.7%	-16.9%	-9.5%	-5.9%	5.4%
May-19	-6.8%	36.9%	13.5%	-2.2%	-4.9%	6.1%	13.3%

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans applied
Jun-19	-47.3%	9.1%	-15.4%	-12.7%	-26.7%	-16.8%	-11.3%
Jul-19	-32.3%	2.6%	-1.7%	-2.2%	-21.7%	15.5%	0.5%
Aug-19	-24.4%	-3.8%	3.1%	-7.8%	-20.5%	38.8%	-0.3%
Sep-19	11.1%	5.1%	5.3%	-0.7%	-20.6%	4.9%	-6.1%
Oct-19	15.7%	5.0%	-5.1%	-4.1%	-21.4%	9.2%	3.2%
Nov-19	34.0%	8.3%	14.2%	7.4%	7.2%	40.1%	26.4%
Dec-19	30.5%	15.1%	5.1%	5.2%	0.6%	12.3%	5.5%
Jan-20	-9.5%	-19.6%	-27.1%	-9.4%	-0.8%	13.3%	-14.6%
Feb-20	45.5%	40.4%	34.5%	32.4%	24.0%	75.9%	40.7%
2MCY19	-9.7%	3.3%	-0.8%	-7.5%	-15.7%	-14.5%	-8.1%
2MCY20	12.8%	5.5%	-3.5%	7.8%	9.6%	41.4%	8.1%

Source: BNM, MIDFR

FIGURE 4: SELECTED LOANS APPROVED SEGMENTS GROWTH RATE (year-on-year)

	Purchase of passenger cars	Purchase of residential property	Purchase of non-residential property	Personal uses	Credit cards	Working capital	Total loans approved
Jan-19	-0.9%	3.9%	17.1%	15.3%	-24.8%	18.1%	-3.3%
Feb-19	-9.7%	-7.4%	1.1%	5.8%	-29.0%	26.9%	-3.0%
Mar-19	10.4%	4.1%	65.4%	8.1%	-19.3%	10.6%	6.9%
Apr-19	7.0%	14.0%	6.6%	2.9%	-10.7%	-15.7%	5.7%
May-19	16.7%	32.3%	11.3%	17.3%	7.8%	37.8%	25.4%
Jun-19	-43.6%	13.7%	34.9%	-5.9%	-16.2%	-16.3%	-3.0%
Jul-19	-30.6%	21.2%	-18.8%	13.2%	6.5%	32.3%	11.2%
Aug-19	-28.6%	6.5%	-21.3%	13.4%	-7.7%	-2.7%	1.7%
Sep-19	-0.5%	3.8%	-16.9%	19.4%	-3.5%	20.6%	-8.7%
Oct-19	6.9%	-2.6%	-11.7%	-1.4%	0.0%	-26.1%	-12.8%
Nov-19	20.2%	3.8%	-3.6%	12.5%	28.7%	25.8%	2.8%
Dec-19	20.5%	8.5%	23.5%	9.0%	20.0%	-14.5%	7.6%
Jan-20	-1.2%	-14.2%	-13.0%	2.9%	13.5%	-1.0%	-4.9%
Feb-20	22.0%	18.1%	-2.6%	44.6%	38.4%	24.4%	23.2%
2MCY19	-4.8%	-1.2%	9.1%	10.8%	-26.6%	21.7%	-3.1%
2MCY20	8.7%	-0.4%	-8.2%	21.6%	23.8%	9.7%	7.4%

Source: BNM, MIDFR

FIGURE 5: BANKING SYSTEM TOTAL DEPOSITS and DEPOSITS GROWTH

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-19	1,906.2	7.4%	497.6	0.9%	26.1%
Feb-19	1,914.3	7.7%	498.4	1.5%	26.0%
Mar-19	1,927.4	6.6%	500.7	2.7%	26.0%
Apr-19	1,940.6	5.2%	499.8	2.8%	25.8%
May-19	1,943.0	5.3%	508.0	4.6%	26.1%
Jun-19	1,937.5	4.7%	506.6	4.4%	26.1%
Jul-19	1,944.5	4.8%	507.4	5.3%	26.1%
Aug-19	1,948.8	4.5%	506.7	5.2%	26.0%
Sep-19	1,952.7	4.2%	514.2	6.5%	26.3%
Oct-19	1,963.8	3.9%	512.4	5.5%	26.1%
Nov-19	1,956.4	2.8%	515.5	5.5%	26.3%
Dec-19	1,970.6	3.1%	530.4	6.7%	26.9%

	Total deposits (RM b)	Growth (yoy)	CASA (RM b)	Growth (yoy)	CASA Ratio
Jan-20	1,961.2	2.9%	525.3	5.6%	26.8%
Feb-20	1,963.2	2.6%	527.0	5.7%	26.8%

Source: BNM, MIDFR


Lower lending and deposits rate. We noted that average lending rate was -3.8bp mom lower, to 4.60%. This was due to the OPR cut in January. Average FD rates were also lower by -3.7bps mom. We believe that this could signal that deposits competitions were waning in light of the expectation then of another OPR cut.

GIL ratio stable. Asset quality seems stable as we estimated gross impaired loans (GIL) was maintained at below 1.6%. Overall, we note that the GIL ratio seems at a manageable level. However, we are keeping an eye on this given the possible impact of Covid-19 and the Movement Control Order implemented in middle of March, for one month.

FIGURE 6: BANKING SYSTEM IMPAIRED LOANS RATIO

	Gross Impaired Loans Ratio (%)
Jan-19	1.48
Feb-19	1.53
Mar-19	1.48
Apr-19	1.53
May-19	1.53
Jun-19	1.57
Jul-19	1.60
Aug-19	1.61
Sep-19	1.61
Oct-19	1.62
Nov-19	1.60
Dec-19	1.52
Jan-20	1.56
Feb-20	1.57

Source: BNM, MIDFR

Maintain POSITIVE for now. We maintain our POSITIVE stance at current juncture. We are cognizant of the impact that Covid-19, the loan moratorium and MCO will have on banks profitability. However, we believe that the moratorium and other measures announced by BNM are positive for the banking sector as it addresses the issue of asset quality and liquidity, and to certain extent cost of fund. It provides much breathing space for the banks. We believe that this will ensure banks profitability to remain intact despite the current headwinds. Therefore, we maintain our **POSITIVE** stance on the sector. Our top picks are the three D-SIB banks due to its solid fundamental, scale and size. Also, being systematically important banks will ensure support should there be any stress to asset quality. Hence, we favour **Maybank (BUY, TP: RM9.55)**, **CIMB (BUY, TP: RM5.70)** and **Public Bank (TRADING BUY, TP: RM19.00)**. Additionally, attractive dividend yield will also cushion any downside risk. 

PEER COMPARISON TABLE

	FYE	Rec.	Price @ 31-Mar	Target Price	EPS (sen)		PER		Net DPS		Net Div Yield		BV (RM)		PBV	
					20	21	20	21	20	21	20	21	20	21		
Maybank	Dec	BUY	7.45	9.55	71.6	71.2	10.4	10.5	56.0	56.0	7.5	7.5	7.34	7.55	1.0	1.0
Public Bank	Dec	T. BUY	15.90	19.00	144.3	146.5	11.0	10.9	73.0	73.0	4.6	4.6	11.92	12.51	1.3	1.3
CIMB	Dec	BUY	3.60	5.70	51.0	52.0	7.1	6.9	26.0	26.0	7.2	7.2	5.70	5.85	0.6	0.6
RHB Bank	Dec	BUY	4.69	6.30	66.1	69.8	7.1	6.7	31.0	31.0	6.6	6.6	6.45	6.60	0.7	0.7
Hong Leong Bank	Jun	BUY	13.46	17.00	136.6	143.9	9.9	9.4	52.0	54.0	3.9	4.0	12.94	13.20	1.0	1.0
AMMB	Mar	T. BUY	3.00	4.20	46.6	48.5	6.4	6.2	22.0	24.0	7.3	8.0	6.04	6.14	0.5	0.5
Affin Bank	Dec	NEUTRAL	1.44	1.87	27.0	27.0	5.3	5.3	7.0	8.0	4.9	5.6	4.71	4.79	0.3	0.3
Alliance	Mar	T. BUY	1.90	2.70	28.6	34.3	6.6	5.5	14.5	17.0	7.6	8.9	3.85	3.92	0.5	0.5
BIMB	Dec	BUY	3.25	5.05	50.5	51.3	6.4	6.3	18.0	18.0	5.5	5.5	3.62	3.96	0.9	0.8
Average					69.1	71.6	7.8	7.5	33.3	34.1	6.1	6.4	6.95	7.17	0.8	0.7

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.